

Office of the State Auditor

Division of State Audit

INDUSTRIAL COMMISSION
Department of Mineral Resources
Lignite Research, Development, and Marketing Program
Oil and Gas Research Program
Pipeline Authority
Transmission Authority
Bismarck, North Dakota

Audit Report for the Biennium Ended June 30, 2007
Client Code 405

Robert R. Peterson
State Auditor



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Transmittal Letter

February 8, 2008

The Honorable John Hoeven, Governor
Members of the North Dakota Legislative Assembly
Karlene Fine, Executive Director, Industrial Commission

We are pleased to submit this audit of the Industrial Commission for the biennium ended June 30, 2007. This audit resulted from the statutory responsibility of the State Auditor to audit or review each state agency once every two years. The same statute gives the State Auditor the responsibility to determine the contents of these audits.

In determining the contents of the audits of state agencies, the primary consideration was to determine how we could best serve the citizens of the state of North Dakota. Naturally we determined financial accountability should play an important part of these audits. Additionally, operational accountability is addressed whenever possible to increase efficiency and effectiveness of state government.

The in-charge auditor for this audit was Delan Hellman. Angela Sabot was the staff auditor. Fred Ehrhardt, CPA was the audit supervisor. Inquiries or comments relating to this audit may be directed to the audit supervisor by calling (701) 328-3647. We wish to express our appreciation to Karlene Fine, Lynn Helms, and their staff for the courtesy, cooperation, and assistance they provided to us during this audit.

Respectfully submitted,

Robert R. Peterson
State Auditor

Executive Summary

INTRODUCTION

The Legislature created the Industrial Commission of North Dakota (Commission) in 1919 to conduct and manage, on behalf of the state, certain utilities, industries, enterprises, and business projects established by state law. The Commission operates as a liaison between the public and private sectors in order to enhance the marketability and financial stability of the state.

The members of the Commission are the Governor, Attorney General, and the State Agriculture Commissioner.

RESPONSES TO LAFRC AUDIT QUESTIONS

The Legislative Audit and Fiscal Review Committee (LAFRC) requests that certain items be addressed by auditors performing audits of state agencies.

1. What type of opinion was issued on the financial statements?

Financial statements were not prepared by the Industrial Commission in accordance with generally accepted accounting principles so an opinion is not applicable. The agency's transactions were tested and included in the state's basic financial statements on which an unqualified opinion was issued.

2. Was there compliance with statutes, laws, rules, and regulations under which the agency was created and is functioning?

Yes.

3. Was internal control adequate and functioning effectively?

Yes.

4. Were there any indications of lack of efficiency in financial operations and management of the agency?

No.

5. Has action been taken on findings and recommendations included in prior audit reports?

There were no recommendations included in the prior audit report.

6. *Was a management letter issued? If so, provide a summary below, including any recommendations and the management responses.*

Yes, a management letter was issued and is included on page 19 of this report, along with management's response.

LAFRC AUDIT COMMUNICATIONS

1. *Identify any significant changes in accounting policies, any management conflicts of interest, any contingent liabilities, or any significant unusual transactions.*

There were no significant changes in accounting policies, no management conflicts of interest were noted, no contingent liabilities were identified, or significant unusual transactions.

2. *Identify any significant accounting estimates, the process used by management to formulate the accounting estimates, and the basis for the auditor's conclusions regarding the reasonableness of those estimates.*

The Industrial Commission's financial statements do not include any significant accounting estimates.

3. *Identify any significant audit adjustments.*

Significant audit adjustments were not necessary.

4. *Identify any disagreements with management, whether or not resolved to the auditor's satisfaction relating to a financial accounting, reporting, or auditing matter that could be significant to the financial statements.*

None.

5. *Identify any serious difficulties encountered in performing the audit.*

None.

6. *Identify any major issues discussed with management prior to retention.*

This is not applicable for audits conducted by the Office of the State Auditor.

7. *Identify any management consultations with other accountants about auditing and accounting matters.*

None.

8. *Identify any high-risk information technology systems critical to operations based on the auditor's overall assessment of the importance of the system to the agency and its mission, or whether any exceptions identified in the six audit report questions to be addressed by the auditors are directly related to the operations of an information technology system.*

ConnectND Finance and Human Resource Management System (HRMS) are high-risk information technology systems critical to the Industrial Commission.

Background Information

The Industrial Commission is responsible for the operation and management of 11 state enterprises including: Building Authority; Bank of North Dakota (BND); Department of Mineral Resources; Housing Finance Agency (HFA); Lignite Research, Development and Marketing Program; Public Finance Authority (PFA); Pipeline Authority; Transmission Authority; Oil and Gas Research Program; Mill and Elevator (State Mill); and Student Loan Trust (SLT). Of these, the Building Authority, BND, HFA, PFA, State Mill, and SLT are audited separately each year. Therefore, these entities will not be included in the scope of our audit.

The following divisions, programs, and activities have been included in the scope of our audit:

- Administration
- Department of Mineral Resources
- Pipeline Authority
- Transmission Authority
- Lignite Research, Development, and Marketing Program
- Oil and Gas Research Program
- Cash Bond Fund
- Oil and Gas Reservoir Data Fund
- Abandoned Oil and Gas Reclamation Fund
- Cartographic Products Fund
- Fossil Excavation and Restoration Fund
- Global Positioning System Data Fund

Industrial Commission Enterprises:

- Building Authority
 - Bank of North Dakota
 - Department of Mineral Resources
 - Housing Finance Agency
 - Lignite Research, Development, and Marketing Program
 - Mill and Elevator
 - Oil and Gas Research Program
 - Pipeline Authority
 - Public Finance Authority
 - Student Loan Trust
 - Transmission Authority
-

The Administration Division serves as a central point for citizens to contact the Commission and coordinates the Commission's activities in regards to those agencies supervised by the Commission. In addition, the Administration Division oversees the bond financing transactions for the Building Authority and Student Loan Trust. It also is responsible for the issuing of contracts for the Lignite Research, Development and Marketing Program, and the Oil and Gas Research Program.

The Commission appoints the Director of the Department of Mineral Resources. The Department of Mineral Resources is made up of the Oil and Gas Division and Geological Survey.

The Oil and Gas Division has jurisdiction over the production of oil and gas in North Dakota. The Division's more important responsibilities are its administration of statutes and administrative rules which regulate the drilling and plugging of wells, the restoration of drilling and production sites, the disposal of saltwater and oil field wastes, the spacing of wells, and the filing of reports on well location, drilling, and production.

The Geological Survey serves as the primary source of geological and map-related information in the state. It promotes better public understanding of the state's natural resources by creating, collecting, and disseminating geologic and map-related information, and it administers several regulatory programs as well as acting in an advisory capacity to other state agencies.

The Pipeline Authority has the responsibility of facilitating development of pipeline facilities to support the production, transportation, and utilization of North Dakota energy-related commodities.

The Transmission Authority serves as a catalyst for new investment in transmission by facilitating, financing, developing, and/or acquiring transmission to accommodate new lignite and wind energy development.

The Lignite Research, Development, and Marketing Program has the authority to make grants or loans, enter into contracts, and issue evidences of indebtedness for the purpose of funding lignite research, development, and marketing projects, processes, or activities directly related to lignite and products derived from lignite.

The Oil and Gas Research Program has the authority to make grants or loans and enter into contracts for the purpose of funding oil and gas research or activities that promote the growth of the oil and gas industry through research and education.

The Cash Bond Fund is used to account for accumulated administrative fees and forfeitures from cash bonds held in lieu of surety bonds from individuals or companies who drill for oil and gas in North Dakota. Funds can be used to defray the costs of plugging, re-plugging, and reclamation of well sites covered by cash bonds in lieu of surety bonds.

The Oil and Gas Reservoir Data Fund is used to defray the costs of providing oil and gas reservoir data compiled by the Commission to state, federal, county departments and agencies, and members of the general public.

The Abandoned Oil and Gas Reclamation Fund is used to defray the costs of plugging or replugging of abandoned wells, the reclamation of well sites, and all other related activities.

The Cartographic Products Division purchases and sells maps under the direction of the State Geologist.

The Fossil Excavation and Restoration Fund is used for excavation and restoration of fossils by the Geological Survey.

The Global Positioning System Data Fund is used to pay the State Geologist's cost of collecting and distributing global positioning system data.

The Department of Mineral Resources, the Lignite Research, Development, and Marketing Program, the Oil and Gas Research Program, the Pipeline Authority, and the Transmission Authority's original budget amount for the 2005-2007 biennium totals \$22,932,465. This represents a 4.1% decrease below the 2003-2005 original budget, which was \$23,922,402. The state general funds comprise \$6,878,658 of the 2005-2007 budget.

More information about the agency can be obtained from the Industrial Commission's home page at: <http://www.nd.gov/ndic/>

All the agencies overseen by the Industrial Commission including the Department of Mineral Resources, Lignite Research, Development, and Marketing Program, the Oil and Gas Research Program, the Pipeline Authority, and the Transmission Authority regularly report to the Industrial Commission.

Audit Objectives, Scope, And Methodology

Audit Objectives

The objectives of this audit of the Industrial Commission for the biennium ended June 30, 2007 were to provide reliable, audited financial statements and to answer the following questions:

1. What are the most important areas of the Industrial Commission's operations and is internal control adequate in these areas?
2. What are the significant and high-risk areas of legislative intent applicable to the Industrial Commission and are they in compliance with these laws?
3. Are there areas of the Industrial Commission's operations where we can help to improve efficiency or effectiveness?

Audit Scope

This audit of the Industrial Commission for the biennium ended June 30, 2007 was conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. To meet the objectives outlined above, we:

Audit Methodology

- Prepared financial statements from the legal balances on the state's accounting system tested as part of this audit and the audit of the state's Comprehensive Annual Financial Report and reviewed management's discussion and analysis of the financial statements.
- Performed detailed analytical procedures for expenditures and receipts.
- Tested samples of expenditures and correcting entries.
- Reviewed prior year audit workpapers.
- Interviewed appropriate agency personnel.
- Reviewed Industrial Commission's written plans and applicable manuals.
- Reviewed Industrial Commission's biennial report.
- Observed Industrial Commission's processes and procedures.
- Reviewed North Dakota Century Code chapters 38-08, 38-08.1, 38-12.1, 38-21, 54-17, 54-17.4, 54-17.5, 54-17.6, 54-17.7, 57-51.1, 57-61, as well as the 2005 and 2007 Session Laws.
- Reviewed applicable Industrial Commission meeting minutes.

Management's Discussion And Analysis

The accompanying financial statements have been prepared to present the Industrial Commission's revenues and expenditures on the legal (budget) basis. The accompanying financial statements are not intended to be presented in accordance with generally accepted accounting principles (GAAP).

The following management discussion and analysis was prepared by the Industrial Commission's management. We have applied certain limited procedures, which consisted primarily of inquiries of management regarding the methods of measurement and presentation of this supplementary information to ensure it does not conflict with the knowledge we gained as part of our audit.

For the biennium ended June 30, 2007, operations of the Industrial Commission were primarily supported by appropriations from general and special funds including federal funds. This is supplemented by interest income and fees credited to the agency's operating fund.

FINANCIAL SUMMARY

The Commission reported a notes receivable balance of \$2,972,962 as of June 30, 2007. These are monies owed by Dakota Gasification Company (Company) to the Lignite Research Fund under an investment agreement. Per the investment agreement the Company makes a payment to the Lignite Research Fund if the Company achieves a profit. Bonds Payable for the Lignite Research Bonds was reduced to \$0.00 by principal payments. The bonds matured in November, 2005, final payments were made and the Commission no longer has any Bonds Payable.

Revenues: Per the investment agreement mentioned above during the 2005-2007 biennium the Company paid a total of \$1,732,920. This revenue is based on the profits of the Company and is the highest amount that has been paid over any prior biennia—a result of the Company's higher profits in calendar years 2006 and 2005. During FY 2007 the Commission also received a one-time payment from Montana-Dakota Utilities (MDU). In September, 2001 the Industrial Commission entered into an agreement with MDU-Westmoreland to assist in the construction of a lignite-fired electric generating facility at Gascoyne, North Dakota. The Commission had disbursed \$562,525 to MDU of matching funds for the preliminary studies regarding this project. In April of 2007, MDU withdrew from the Project and returned the funding that had been provided from the Lignite Research Fund.

Revenues consisted primarily of special funds, federal funds, and interest and investment earnings. Other revenues during the audited period included various fines and forfeits and sales and services. These all remained fairly constant for the Industrial Commission except for fines and forfeits and interest income. In 2007 the Commission received payments for fines totaling \$160,617 compared to \$28,789 in 2006. The increase in fines was primarily the result of a settlement with one operator. Interest income also increased as a result of higher investment rates. Total revenues were \$2,822,823 for the year ended June 30, 2007 as compared to \$1,539,979 for the year ended June 30, 2006.

Expenditures: Total expenditures for the Industrial Commission were \$8,926,187 for the year ended June 30, 2007 as compared to \$7,503,568 for the prior year. During fiscal year 2007 the Lignite Research Program saw an increase in the expenditures for various lignite research projects. These funds are disbursed as work is completed and as the project is able to certify the expenditure of matching funds. The timing of the Commission's rate of expenditures is driven by when the work is completed on the projects.

ANALYSIS OF SIGNIFICANT CHANGES IN OPERATIONS

During the 2005 legislative session the Legislature authorized the establishment of the North Dakota Transmission Authority. The Legislature during the 2007 legislative session authorized the establishment of the North Dakota Pipeline Authority effective April 11, 2007. See discussion below under Agency Accomplishments.

ANALYSIS OF SIGNIFICANT VARIANCES BETWEEN FINAL BUDGETED AND ACTUAL EXPENDITURES

There was one significant variance between the final budgeted and actual amounts expended. In the grants line item, \$15,200,000 was budgeted while actual expenditures were \$7,537,459, leaving \$7,662,541. As noted earlier this is due to the Lignite Research Grants which have contracts that were not completed as of June 30, 2007 and will be carried over into the following biennia. (See discussion below on Montana-Dakota/Westmoreland Agreement as one example.)

MONTANA-DAKOTA/WESTMORELAND AGREEMENT

Subject to continuing appropriations and the authority to expend monies from the Lignite Research Fund by the North Dakota Legislature and the conditions stated in the agreement with Montana-Dakota/Westmoreland (MD/W), the Industrial Commission has agreed to pay or reimburse payments to MD/W for Phase III of the MDU/Westmoreland Power Plant Project, an amount not to exceed \$7,150,000. After the first year of commercial operation of the Project, \$4,500,000 of the \$7,150,000

in funding provided by the Industrial Commission is to be repaid in annual payments of \$225,000 for 20 years for the benefit of the Lignite Research, Development and Marketing Program. If in any calendar year during the 20-year period of commercial operation and following the first year of commercial operation after successful permitting, financing and startup, the Project does not utilize North Dakota lignite as its primary fuel, MD/W will pay an additional \$1,000,000 per year for each year during this 20-year period in which it does not use North Dakota lignite as primary fuel. The total of these additional payments and the annual payments are not to exceed \$12,800,000. Once that total amount of payments has been reached the obligations to make further payments will terminate. The payments are to be made to the North Dakota Industrial Commission for the benefit of the Lignite Research Fund. As noted earlier Montana-Dakota Utilities has withdrawn from this project. However, Westmoreland has continued the project.

Similar types of agreements have been entered into with Great Northern Power and American Lignite Energy.

AGENCY ACCOMPLISHMENTS

In 2005 the North Dakota Legislature established the North Dakota Transmission Authority. During the 2005-2007 biennium the Authority began its work and an Acting Director was named. In April, 2007, a project involving the expansion of transmission facilities by Basin Electric Power Cooperative in the oil and gas fields of western North Dakota was announced. The North Dakota Transmission Authority helped finance a feasibility study and facilitated discussions between the Bank of North Dakota and Basin Electric Power Cooperative. A portion of the financing for this project was provided by the Bank of North Dakota.

The North Dakota Legislature established the North Dakota Pipeline Authority effective April 11, 2007. The Industrial Commission named a Director for the Authority and work was begun on various aspects of the Pipeline Authority's mission.

The Lignite Research Program continued its research and support for a number of projects during the biennium. Two significant additional projects were added under the Lignite Vision 21 Program --- a plant at Spiritwood and a Coal-to-Liquids Project.

The proposed merger of the North Dakota Geological Survey and Oil and Gas Division to become the North Dakota Department of Mineral Resources was passed by the 2005 Legislative Assembly as part of the Industrial Commission appropriations bill, Senate Bill 2014. The Department of Mineral Resources began preparing for the merger in 2004, and implemented the changes July 1, 2005. Agency staff was reorganized, vacant positions were filled, and positions were added to deal with rapidly increasing energy activity.

The work output of the Department of Mineral Resources increased substantially during the 2005 – 2007 biennium. The active oil and gas well count increased 9% due to drilling and many idle wells returned to production. Well plugging and reclamation workload increased 13%. Applications for permit to drill increased 188% and the drilling rig count increased 105% with over 95% of the wells drilled horizontal and most fracture stimulated. The number of oil and gas hearings increased 68% with increasingly complex unitization/enhanced oil recovery and drilling proposals. In addition the agency processed 40% more coal and 176% more geothermal permit applications. The number of fossil digs doubled along with the related collection and restoration responsibilities. The publication of surface studies and subsurface petroleum studies increased 100% and activity at the core library in Grand Forks rose 77%.

In the fall of 2006, the Geological Survey initiated an investigation of the shallow gas potential in eastern and central North Dakota. A total of 331 NDSWC monitoring wells were tested with 20% containing detectable amounts of methane.

Financial Statements

STATEMENT OF REVENUES AND EXPENDITURES

Department of Mineral Resources; Lignite Research, Development, and Marketing Program; Oil and Gas Research Program; Pipeline Authority; and the Transmission Authority

	<u>June 30, 2007</u>	<u>June 30, 2006</u>
<u>Revenues and Other Sources:</u>		
Dakota Gasification Co. Loan Revenue	\$1,059,240	\$673,680
Montana Dakota Utilities Revenue	562,525	
Interest and Investment Income	313,724	213,701
Fine and Forfeits	160,617	28,789
Federal Revenue	144,759	123,093
Sales and Services	108,209	100,416
Licenses, Permits, and Fees	102,730	93,865
Other Revenue	4,143	8,680
Transfers In	366,876	297,754
Total Revenues and Other Sources	<u>\$2,822,823</u>	<u>\$1,539,979</u>
<u>Expenditures and Other Uses:</u>		
Grants, Benefits, and Claims	\$4,622,414	\$2,463,020
Salaries and Benefits	3,094,516	2,829,152
Bond Principal		1,000,324
Major Operating Expenses:		
Travel	303,597	286,535
Professional Services	170,118	99,628
Rentals / Leases – Building / Land	149,454	352,077
IT Equipment / Software / Supplies	119,380	79,571
Data Processing / Communications	87,814	93,883
Supplies	66,862	28,664
Interest		56,503
Other Operating Expenses	187,032	214,211
Transfers Out	125,000	
Total Expenditures and Other Uses	<u>\$8,926,187</u>	<u>\$7,503,568</u>

STATEMENT OF APPROPRIATIONS

Department of Mineral Resources; Lignite Research, Development, and Marketing Program; Oil and Gas Research Program; the Pipeline Authority; and the Transmission Authority

For The Biennium Ended June 30, 2007

Expenditures by Line Item:	<u>Original Appropriation</u>	<u>Adjustments</u>	<u>Final Appropriation</u>	<u>Expenditures</u>	<u>Unexpended Appropriation</u>
Salaries and Benefits	\$ 5,776,615	\$ 120,000	\$ 5,896,615	\$ 5,832,566	\$ 64,049
Operating Expenses	1,685,350	105,000	1,790,350	1,745,923	44,427
Capital Assets	45,500		45,500	44,420	1,080
Grants	15,200,000		15,200,000	7,537,459	7,662,541
Oil & Gas Div Contingency	225,000	(225,000)			
Totals	<u>\$ 22,932,465</u>	<u>\$ 0</u>	<u>\$ 22,932,465</u>	<u>\$ 15,160,368</u>	<u>\$ 7,772,097</u>
Expenditures by Source:					
General Fund	\$ 6,878,658		\$ 6,878,658	\$ 6,872,109	\$ 6,549
Other Funds	16,053,807		16,053,807	8,288,258	7,765,549
Totals	<u>\$ 22,932,465</u>		<u>\$ 22,932,465</u>	<u>\$ 15,160,367</u>	<u>\$ 7,772,098</u>

Appropriation Adjustments:

The \$225,000 transfer from the Oil & Gas Division Contingency line item to the Salaries and Benefits and Operating Expenses line items was approved by the Emergency Commission and made pursuant to Senate Bill 2014, Section 18 from the 2005 Legislative Session. This transfer was made to cover expenses related to the increase in oil rig activity in the state.

Expenditures Without Appropriations Of Specific Amounts:

Fossil Excavation and Restoration fund has a continuing appropriation authorized by NDCC section 54-17.4-09.1 (\$119,970 of expenditures for this biennium).

Oil and Gas Research fund has a continuing appropriation authorized by NDCC section 57-51.1-07.3 (\$795,209 of expenditures for this biennium).

Pipeline Authority Administrative Fund has a continuing appropriation authorized by NDCC section 54-17.7-11 (\$9,285 of expenditures for this biennium).

Cash Bond Fund has a continuing appropriation authorized by NDCC section 38-08-04.11 (\$4,431 of expenditures for this biennium).

Cartographic Products Fund has a continuing appropriation authorized by NDCC section 54-17.4-10 (\$4,953 of expenditures for this biennium).

Global Positioning System Community-Base Station Fund has a continuing appropriation authorized by NDCC section 54-17.4-12 (\$2,967 of expenditures for this biennium).

Oil and Gas Reservoir Data Fund has a continuing appropriation authorized by NDCC section 38-08-04.6 (\$211,538 of expenditures for this biennium).

Abandoned Oil and Gas Reclamation Fund has a continuing appropriation authorized by NDCC section 38-08-04.5 (\$106,035 of expenditures for this biennium).

Internal Control

In our audit for the biennium ended June 30, 2007, we identified the following areas of the Industrial Commission's internal control as being the most important:

Internal Controls Subjected To Testing

- Controls surrounding the processing of revenues.
- Controls surrounding the processing of expenditures.
- Controls effecting the safeguarding of assets.
- Controls relating to compliance with legislative intent.
- Controls surrounding the ConnectND (PeopleSoft) system.

We gained an understanding of internal control surrounding these areas and concluded as to the adequacy of their design. We also tested the operating effectiveness of those controls we considered significant. We concluded internal control was adequate. Our consideration of internal control would not necessarily disclose all matters that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements that would be material may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control and its operation that we consider to be material weaknesses. However, we noted other matters involving internal control that we have reported to management of the Industrial Commission in a management letter dated February 8, 2008.

Compliance With Legislative Intent

In our audit for the biennium ended June 30, 2007, we identified and tested Industrial Commission's compliance with legislative intent for the following areas that we determined to be significant and of higher risk of noncompliance:

Legislative Intent Subjected To Testing

- Proper administration of legally restricted funds:
 - Fossil Excavation and Restoration Fund
 - Oil and Gas Research Fund
 - Cash Bond Fund
 - Cartographic Products Fund
 - Global Positioning System Community-Base Station Fund
 - Lignite Research Fund
 - Oil and Gas Reservoir Data Fund
 - Abandoned Oil and Gas Reclamation Fund
- Compliance with Lignite Research, Development, and Marketing Program - Lignite Marketing Feasibility Study (2005 North Dakota Session Laws chapter 42, section 13).
- Compliance with appropriations and related transfers (2005 North Dakota Session Laws chapter 42).
- Compliance with OMB's Purchasing Procedures Manual.
- Travel-related expenditures are made in accordance with OMB policy and state statute.
- Proper use of outside bank accounts and proper authority for investments outside the Bank of North Dakota.
- Adequate blanket bond coverage of employees (NDCC section 26.1-21-08).
- Compliance with fixed asset requirements including record keeping, lease and financing arrangements in budget requests, and lease analysis requirements.
- Compliance with payroll related laws including statutory salaries for applicable elected and appointed positions, and certification of payroll.

The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. Thus, we concluded there was compliance with the legislative intent identified above. However, we noted certain immaterial instances of noncompliance that we have reported to management of the Industrial Commission in a separate letter dated February 8, 2008.

Operations

This audit did not identify areas of the Department of Mineral Resources, Lignite Research, Development, and Marketing Program, Oil and Gas Research Program, Pipeline Authority, and the Transmission Authority's operations where we determined it was practical at this time to help to improve efficiency or effectiveness.

Management Letter (Informal Recommendations)

February 8, 2008

Ms. Karlene Fine, Executive Director
Industrial Commission
600 E. Boulevard Avenue
Bismarck, ND 58505

Dear Ms. Fine:

We have performed an audit of the Industrial Commission for the biennium ended June 30, 2007, and have issued a report thereon. As part of our audit, we gained an understanding of the Industrial Commission's internal control structure to the extent we considered necessary to achieve our audit objectives. We also performed tests of compliance as described in the same report.

Our audit procedures are designed primarily to enable us to report on our objectives including those related to internal control and compliance with laws and regulations and may not bring to light all weaknesses in systems and procedures or noncompliance with laws and regulations which may exist. We aim, however, to use our knowledge of your organization gained during our work to make comments and suggestions which we hope will be useful to you.

In connection with the audit, gaining an understanding of the internal control structure, and tests of compliance with laws and regulations referred to above, we noted certain conditions we did not consider reportable within the context of your audit report. These conditions relate to areas of general business practice or control issues that have no significant bearing on the administration of federal funds. We do, however, want to present our recommendations to you for your consideration and whatever follow-up action you consider appropriate. During the next audit we will determine if these recommendations have been implemented, and if not, we will reconsider their status as non-reportable conditions.

The following present our informal recommendations.

CASH

Informal Recommendation 07-1: We recommend the Industrial Commission review the Dakota Gasification Company's annual loan payment calculation (and that this review be adequately documented) to ensure that the calculation is proper and that the annual payment received is correct.

Informal Recommendation 07-2: We recommend the Industrial Commission ensure that a proper reconciliation of federal funds is performed by someone independent of the federal drawdown.

PAYROLL

Informal Recommendation 07-3: We recommend that the Industrial Commission comply with Section 54-06-31 Part 1.a. of the North Dakota Century Code by identifying positions or occupations eligible for receiving retention bonuses in their retention bonus written policy.

Informal Recommendation 07-4: We recommend that the Industrial Commission ensure that retention bonuses are paid only to employees who meet the intent of Section 54-06-31 of the North Dakota Century Code (retention bonuses were paid to 45 of the 46 employees at the Department of Mineral Resources).

Informal Recommendation 07-5: We recommend the Industrial Commission implement procedures to ensure that the One-Time Payment Query for payroll gets run and printed each month by someone who has inquiry rights only and that this report be approved by someone authorized to approve payroll.

Management of Industrial Commission agreed with these recommendations.

I encourage you to call myself or Paul Welk, audit manager, at 328-2320 if you have any questions about the implementation of recommendations included in your audit report or this letter.

Sincerely,

Delan Hellman
Auditor in-charge